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Willard, Daniel

Address by Daniel Willard

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Box 128 Address by Daniel Willard... at the annual dinner of the Traffic club of Pittsburgh, Pittsburgh, Pa., April 28, 1921.
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308
Z
Box 128

ADDRESS

by

DANIEL WILLARD

PRESIDENT OF THE BALTIMORE AND OHIO RAILROAD COMPANY

at the

ANNUAL DINNER

of

THE TRAFFIC CLUB OF PITTSBURGH

Pittsburgh, Pa.
April 28, 1921

Aug 21 1923 AES

PITTSBURGH TRAFFIC CLUB ADDRESS

April 28th

When I had the privilege of addressing the Traffic Club of Pittsburgh seven years ago, I urged the necessity for higher freight rates for the railroads in the Eastern District. Shortly thereafter the Eastern carriers made formal request upon the Interstate Commerce Commission (which was granted in part) for permission to increase all freight charges five per cent.

At the time of which I speak, freight rates had gradually but constantly been declining since 1887, as shown by the average rate per ton per mile, the decline having been brought about by the combined influence of competition and regulation. These influences operated to bring the average rate per ton per mile from 1.063 cents in 1887, down to .707 cents per ton mile in 1916, - the lowest figure ever reached in this or in any other country, and lower, in fact, than conditions here actually justified. Since 1916 freight rates in the United States as a whole have been increased on the average approximately 70 per cent. and passenger fares about 52 per cent. Despite these unprecedented increases, net earnings of the carriers as a whole are now smaller and more disappointing than ever before. The problem so developed is due primarily to the war. Since it is very much in the public mind at the present time, and is, of course, receiving the earnest attention of the Railroad Executives, I have felt that a discussion of some of the matters and facts related to the problem might be timely and appropriate upon such an occasion as this.

In 1914 five of the largest and most enlightened nations in the world, practically without warning and almost simultaneously, abandoned the ordinary pursuits of peace and for more than four years devoted their utmost efforts to the destruction of lives and property. Millions of men were at once withdrawn from their customary occupations and were either assembled and organized as armies devoted to military purposes, or they were employed in the manufacture of material required by the war program. The economic effect of this change was soon observed in the steadily advancing prices of commodities and materials. Such changes, first noticeable in the countries directly engaged in the war, were soon reflected in the prices of materials in this and other countries not at that time participants in the war.

As prices advanced, due to an increased demand together with a lessened world production, the cost of living gradually and naturally went up, which was also followed, and necessarily so, by increased wages. The United States entered the world war in 1917, and by November, 1918, over 4,000,000 of our young men had been withdrawn from their ordinary pursuits and assembled as armies and they had not only ceased to produce, but actually created enlarged demands upon our factories, farms and labor. New and temporary cities were built for housing the new armies hastily created. Existing factories were enlarged and new factories were built in response to an ever-increasing demand for the materials and munitions needed for the prosecution of the war. Immense warehouses were also constructed in which to store such materials until needed. A comparison of prices and wages as they were in 1914, at the beginning of the war, with those in effect

in June 1920, the date when the high point seems to have been reached, shows clearly the effect which the war and incidental changes had upon economic conditions in this country.

Assuming the cost of living to have been 100 per cent. in 1914, it had reached 220 per cent., the high point, in June 1920. Wages at 100 per cent. in 1914 had advanced to 215 per cent. in 1920. The figures I have used are based on official reports and refer to conditions in the United States. The advance in cost of living and wages was very much greater in European countries than it was here. Since June 1920 the cost of living in the United States has declined over 30 per cent., as shown by the latest and most reliable statistics.

The high costs of 1920 were due directly to the disturbed and unsound conditions brought about by the war. The effect of the war upon the nations of the world, was much like the effect of a serious fever upon the human body. As the fever runs its course the temperature rises higher and higher, the patient gradually getting weaker until at last the fever subsides. The subsidence of the fever is not infrequently followed by a complete or serious collapse. But if the patient can only hold out for a relatively short time, convalescence begins and he gradually regains his strength and is often much better and stronger ever after. The feverish conditions brought about by the war seem to have reached the high point in this country last June. Since then the patient has been and still is in a more or less shaky and unsettled condition, but we have definitely passed the critical point and recovery, I am confident, is under way.

The actual war has now been ended more than two years. Men and

women are getting back to their usual peace-time employment, and the shortage of food and supplies in the world as a whole is gradually being made up, but the necessary processes of readjustment are still far from complete. For more than four years the leading nations of the world devoted their utmost energies towards destruction and now the bill must be paid.

In this day of the fast ocean liner, the airplane, the trans-Atlantic cable, and telephone, we are in effect much nearer the rest of the world than formerly, and whether we will or not, we cannot be wholly immune from the ills which press down upon the rest of humanity, but we are so much better off than any other nation in the world, that our task incident to industrial and economic recovery ought to be relatively easy. Our national prosperity is largely influenced by conditions in the rest of the world, because the volume of our trade with the rest of the world has an important bearing upon our own industry, but I shall not discuss that important and very complex question, because I do not feel competent to do so.

But however important our foreign trade may be, our interior domestic trade is of infinitely greater importance. More than 105,000,000 people live within the boundaries of continental United States, and our population has increased 42,000,000 within the last thirty years, or at the rate of 1,400,000 per year. As a nation we shall surely continue to grow. With an area of over 3,000,000 square miles, rich in all natural resources, we can easily support a population four times as large as we have at present. While there is still in many parts of the world an actual shortage of footstuffs and materials needed in industry, we in this country have an abundance of everything necessary for our health and

comfort. As a matter of fact we actually at this time have more wheat, corn, cotton, wool, iron, coal and almost every other necessary thing than we need or can use. We have more than one-half of all the gold in the world. Our national debt, while large, is not beyond our capacity to bear and need not be disturbing. Our institutions are sound and our Government is and will continue to be just what we make it.

Why is it then that so many are inclined to be pessimistic at the present time? Briefly, it is because we are now paying for a dinner long since eaten, which is hardly ever a cheerful process. In this case, however, the price is not excessive, is easily within our means, and in any event it must be paid. Our peace program of house-building, road-building and general development was seriously checked, if not wholly stopped by the war. We must get back to our normal peace-time activities and conditions. While prices are generally lower than they were a year ago and are still falling, they are much higher than they were in 1914, and those who contemplate the expenditure of money for building and development purposes will naturally postpone such action as long as they believe, as many or most do, that prices will be lower still a little later on, and that an investment then made would prove to be more profitable. I think most of us expect to see prices generally lower than they are at this moment. How much lower they will go no one can possibly know, but I feel confident that they will not go back to the 1914 basis. There is every reason to believe that as prices more nearly approach the new normal basis, whatever that basis may be, industrial activity will quicken. As I see it, the more promptly we can now get back to a stable basis of prices, wages and profits, the better will it be for all.

Railroads have felt the effect of the high cost of living like every other corporation or individual, but the resulting increase in railroad charges has been much less than the increase in almost every other connection. As the cost of living comes down, as it must and will, wages will also come down, and as wages and material prices come down, industry will quicken and railroad rates and charges will come down also. Wages constitute the largest single item in the cost of railroad operation, and the railroads are still paying wages fixed by governmental authority at a time when living costs were at the highest. The railroads today are doing not more than two-thirds of what they are equipped to do, but unlike ordinary industries, they cannot reduce expenses in the same ratio that the business may fall off. The railroads, for instance, are obliged to keep stations open and operate a minimum number of trains for the convenience of the public, regardless of whether such service is profitable or not.

If I have correctly described and interpreted conditions as they now exist, what may we expect or say concerning the future, and particularly concerning the future of the railroads? Personally I feel confident and optimistic concerning the future. I believe that our country, because of its great extent and its rich natural resources, is going to continue to grow, in which event it is going to require the service of the steam railroads in ever-increasing measure. The people in this country have always favored an economic policy which permitted the individual the fullest and freest opportunity. We have respected the rights of property as we have respected the rights of labor, and I believe that in the past we have honestly tried as a people to deal fairly with both. I am confident that we shall continue to protect and encourage both in the future. We some-

times hear it urged that the Government should own and operate the railroads instead of permitting the railroads to be held and operated by the owning companies under governmental regulation as has been our policy in the past. I do not believe that the policy of Government ownership of industry of any character is necessary or desirable in our country, and I do believe that Congress, by virtue of the Esch-Cummins Act, has made possible the successful private operation of the railroads in the future.

It has been claimed by some who desire a change, that the railroads under private management cannot be operated so effectively and consequently cannot perform as large a measure of service for the public as could be done with the same facilities under Federal ownership or control. The fallacy of that argument is clearly demonstrated by the fact that during the year ended December 31, 1920, the 1800 independent railroad companies in this country, reporting to the Interstate Commerce Commission, were able to so coordinate their efforts that they handled during the year 9,000,000,000 ton miles more than they ever handled before in the same length of time. This effective coordination on the part of the carriers was made possible by the Esch-Cummins Act.

There have been many in the past who, while favoring private ownership, have feared that it might fail as an economic policy because of the inability of the carriers to secure adequate rates for the services which they perform, and on that account be unable to provide the new capital necessary for additions and betterments. Congress was fully advised concerning the capital needs of the carriers and realized also that the necessary new capital could not be obtained unless the credit of the roads was sound and on a satisfactory basis. The Transportation Act of 1920 lays down a definite rule for the future guidance of the Interstate Commerce Commission in the fixing of

rates, and it was clearly the intent of Congress to establish a rule which would sustain and stabilize the credit of the carriers. I assume you are all familiar with the rule to which I refer, and I will not discuss it in detail, but, acting in accord with the provisions of the law, the Interstate Commerce Commission promptly granted, during the summer of 1920, such increases as the Act justifies, and in my opinion the increases so granted would have been ample to fulfill the intent of Congress and the avowed purpose of the Act if we had not been confronted at the same time or shortly thereafter with an almost unprecedented decline in business, brought about by the processes of readjustment which I have already adverted to, and resulting from the war. It has been claimed by some that the depression in business was caused by the increased transportation charges. While I have no desire to minimize the effect of higher transportation charges, I am confident that during the last three or four months the business of the country as a whole would have been very little, if any, larger even if the railroads had carried the tonnage offered free of any charge whatever. The decline in business was not caused by higher freight rates, but was brought about by the very same causes that made the higher freight rates necessary. Congress, in my opinion, has provided in the new Transportation Act a rule for rate-making which ought to restore and stabilize the credit of the carriers, and, if so, there is now no reason from that point of view to fear that private ownership will not continue. It should be clearly recognized, however, that we cannot afford to continue the policy of private ownership except on the basis of its complete success. We must have ample transportation facilities in a country such as ours.

One other very important phase of the whole question at the present time is the labor problem as it affects the railroads. The railroads in the

aggregate employ roundly 2,000,000 men and women, and out of every dollar which they collect from the public for the services which they perform, from 45 to as high as 70 cents - varying from time to time - are paid out directly to the employes in the service of the carriers. Before the war the railroads paid for labor about 45 cents out of every dollar earned. Since the war and particularly since the period of readjustment began, the wage payment of the railroads has in some instances taken as high as 70 cents out of every dollar earned. That, however, does not reflect a normal or permanent condition. It does reflect a temporary situation resulting from the war, which will be properly adjusted as prices and wages gradually find a lower and more normal level. Congress has set up machinery designed to deal in an orderly manner with questions which may arise in the future between the railroads and their employes relating to wages and working conditions. Congress clearly recognized the serious results which would flow from any considerable interruption of the transportation service in this country, which might be caused by disputes arising between the railroads and their employes, and not being willing to prohibit strikes by law it sought to provide machinery which would assure to the railway employes at all times just as fair and reasonable wages and working conditions without striking as they could expect to obtain even if they did strike. While this provision of the Act has been criticised somewhat by the Companies and the employes as well, it can at least be said that by virtue of the Act we have had continuity of service during a critical period of twelve months and during which time one of the most complex labor problems that ever confronted the railroads was being slowly worked out and adjusted. I am confident that the labor provision of the law will also be successful.

I repeat that by virtue of the Transportation Act of 1920 Congress

in my opinion, has made private ownership and operation of the railroads possible, but whether private ownership will actually endure or not, having been made possible, will depend upon whether the people as a whole continue to want it. During the debates that took place in Congress while the Esch-Cummins Act was under consideration, distinguished and able Senators and Congressmen united in saying that we had in this country previous to the war the best and most efficient transportation system by rail in the world. They also said that we had not only had the lowest transportation charges of any country, but that railroad wages at the same time had been the highest. Private capital and individual initiative gave us in the past the best transportation system, with the lowest rates, in the world. Private capital and individual initiative, if given the opportunity, will also provide the necessary extensions in the future, and when the economic readjustment now under way shall have been accomplished, I venture to predict that the transportation charges of the American railroads will in the future as in the past continue to be the lowest in the world.

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